

A STUDY ON RURAL MARKETING ENVIRONMENT IN INDIA

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ABSTRACT

Rural India is a vast and a complex society – its huge population is highly diverse in terms of ethnicity, language, customs and their way of life. The demographic and economic statistics that underlay the growth of India's major sector are truly impressive and important for marketer's for decision making. Rural India constitutes an attractive and sizeable market for durable goods, and marketers have to strive hard for securing the share by understanding the changing Marketing environment. The rural markets throw up a variety of challenges, and the marketers have to grapple with them to find innovative solutions. It can be seen that the rural economic environment has witnessed an increase in income and expenditure in the same way there has been a increase in their spending on non-food items.

KEYWORDS: *Rural Marketing, Marketing Environment, Demographics, Economic and Socio and Cultural Environment*

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INTRODUCTION

Rural India- A Promising Marketplace

Rural India with its heterogeneous demographics and vast size has been considered as the largest rural market in the world (Krishnamacharyulu, 2009). The decision to liberalize the Indian economy in the beginning of the 1990's had far reaching repercussions, which cascaded into the new millennium. In the marketing scenario, there was the arrival of many well-known multinational companies which are the household brands in the international market (Kashyap and Raut, 2006). Today it has become the potential market of 742 million rural consumers who are in the stage of exploring the modernity (Harish Manwari, 2009).

Rural India constitutes an attractive and sizeable market for durable goods, and marketers have to strive hard for securing a share (Sajjan Jindal, 2009). The rural markets show lot of challengers and marketers need to find out solutions for these challenges.

RURAL MARKETS

The census of India (2001), defines rural as any habitation with a population density of less than 400 per sq.km, where at least 75% of the male population is engaged in agriculture and where there exists no municipality or board.

Rural India constitutes an attractive and sizeable market. Some important features of rural markets are as below:

- In India, 74.6 crore people live in rural areas
- The number of young and educated people in rural India is increasing. Nearly 40% of the young

graduates are from rural areas.

- Two-thirds of middle income groups' households are in rural India.
- Of the two million BSNL mobile phone connections, 50% are in rural India.
- More than 20 million who have signed up for Rediff mail, 60% are from small villages.
- The number of middle and higher income families having Rs.70,000 plus annual income in rural India is 21.7 million
- Rural market offers a great opportunity for different branded goods and services to target a large number of potential customers. It is estimated by Hindusthan Unilever limited (HUL), that out of 5 lakh villages in India, only one lakh villages have been tapped so far, which indicates the potential of the rural market.
- Accessibility of rural market has become easy through improved infrastructural facilities like transportation, communication, TV penetration and Information Technology.
- Rural lifestyle is changing. Almost every household has atleast one member living and working in a city.

(Source: Marketing White book, 2003 – 2004)

Composition of the Rural Market

The rural market in India has two components:

- The market for consumption goods, including both FMCG and durables, and
- The market for agricultural inputs and other investment goods.

RURAL MARKETING

Rural marketing is the planning and implementation of marketing function for the rural areas. It's a two –way marketing process which encompasses the discharge of business activities that direct the flow of goods from urban to rural areas for manufactured goods and from rural to urban areas for agriculture produce, as also within the rural areas. This implies that rural marketing consists of marketing of products or services to the rural as well as marketing of outputs from the rural markets to other geographical areas.

Rural marketing has been always a dominant theme that has been emerging over the last few years in Indian marketing. Competition and customer bargaining power are increasing due to the variations in consumer tastes, preferences and increase in purchasing power. For satisfying the rural consumers, The marketer should first understand the consumers and their needs in satisfying the rural consumers.

Reasons for Marketers Going Rural and Select Cases

The Indian rural demographics is heterogeneous and offers plethora of opportunities for increasing the revenues like what they are facing in the urban areas of the country (Rama Rao, 2008). India's two third population lives in rural places and almost of half of the national income is create here and 70% of the country's one billion plus population (Census, 2001) lives in over than six lakh villages. It has more than 47,000 small shandi's when compared to 35,000 supermarkets in the USA. The purchasing power of rural India is on the rise and it has been observed to grow at 3.4% per

annum adding more than one million new consumers every year (Marketing white book, 2003). Rural India accounts for around 50% of volume consumption of Fast Moving Consumers Goods (FMCG). In the year 2025 India will increase its income level and become the World's fifth largest consumer market from its current position at twelfth and real annual income from 2.8 per cent to 3.6 percent in ten years (Mc Kinsey report, 2009). Industry observers estimate that urban households will grow by 4% while their rural counterparts will grow by 11% by 2009 -10, which further implies that if rural income rises by 1% then, the spending power of consumers will increase by approximately Rs.10,000 crore (Rural Marketing book, 2006). But then, although rural India has a huge potential, there are very few brands that have made significant inroads into this market and have effectively tapped it for what it is worth (NCAER, 2000).

Phases of Rural Marketing

Table 1: Phases of Rural Marketing

Phase	Time Period	Nature	Major Products	Source Market	Target Market
1	From independence to green revolution	Agricultural marketing	Agricultural produce	Rural	Urban
2	Green revolution to pre-liberalization period	Marketing of agricultural inputs	Agricultural inputs	Urban	Rural
3	Post liberalization period in 20 th century	Rural marketing	Consumables & durables for consumption & production	Urban & rural	Rural
4	21 st century	Developmental marketing	All products and services	Urban & Rural	Urban & Rural

Source: The rural marketing book, 2006

STRUCTURE OF INDIAN RURAL MARKET

Indian rural market comprises 12.2% of the world's population (i.e.,) market twice as large as the US. Indian rural market comprises 75% of India's population living in 6 lakh villages, speaking 33 languages, 1652 dialects (Census of India, 2001). Over the last three decades there has been a marginal reduction in the rural population (Meenu Agarwal, 2009), but still rural areas continue to be a tradition bound community with religion and traditions strongly influencing their consumption. Major income is from agriculture and allied activities. They are diverse in terms of religion, social, cultural and linguistic factors and forms a heterogeneity.

RURAL ENVIRONMENT

Demographic Environment

Table 2: Demographic Environment

	1971	1981	1991	2001
Total Population(million)	548.2	683.3	848.3	1026.9
Rural Population(million)	-	524.0	628.8	741.6
Rural Proportion To Total Population (%)	-	76.7	74.3	72.2
Decadal variation	-	19.8	16.7	15.2

Source: NCAER, 2002

Growing population does not guarantee a market. But companies can analyze and find right opportunities. With increase in working population the purchasing power has gone up from 40% in 1991 to 42% in 2001. Marketers target the

largest age group shaping the marketing environment. In rural market children and youngsters below the age of 20 comprise the largest influence group comprising of 48% of the population.

Education

This has been the area which has seen the maximum improvement. Earlier rural sector was affected by low literacy rates. In the last two decades there has been a 23% jump in the literacy rate. These are positive signs for a marketer to explore new territory.

Table 3: Rural Literacy Rate

Rural Literacy	1981	1991	2001
% in literates	36%	45%	59%

Source: NCAER, 2002

This increase in literacy rate has contributed to an improvement in the socio-economic status of the people. Thus there has been a increase for educational products as well as there has been a increased product and brand awareness. Thus the demand for both farm and non-farm products has seen a increase.

Household Pattern

Rural household has grown by 26 million during the last two decade. But the average size of a family has seen a decline due to movement of more families from joint to nuclear structure.

Table 4: Household Patterns

	1991			2001		
	Rural	Urban	Total	Rural	Urban	Total
Households(million)	112	40	152	138	54	192
Family size(number)	5.55	5.32		5.36	5.31	

Source: NCAER, 2002

The rural household has encountered a new concept of individualized joint family. According to the study families stay in the same house, but use separate kitchens in order to avoid conflicts, pursue individualized choices and nurture their children better. This allows a marketer a window of opportunity to increase the range and number of branded products coming into a family.

Occupational Pattern

The demographic pattern of people in segment affects their buying behavior. The wage earner and salary earner cannot be expected to behave the same way. Three-fourths of the rural household heads are either cultivators or wage earners; unlike urban where three-fourth of the population are salary earners. The farmers income is more seasonal and particularly after harvest. This is time when they decide to make purchases, especially durables and high-involvement products. The purchases at such times are quite significant with 40% of rural population (50 million families) are farmers.

Physical Environment

Settlements

Villages comprise of homestead (abadi) and cultivated land. The settlement pattern of households is either in a cluster in the abadi or in individualized land-holdings, or a combination of the two. Houses are owned occupied and the structure is usually kuccha. It is common to find houses according to kinship, caste or religious groups. Sometimes the

whole village is classified on the basis of dominant caste, group etc.

Table 5: Settlements

Town Class	Population	No. of Towns	% of Total Towns	% of Population	Decadal Growth (1991-2001)
Class I	11akh and above	423	8.2	61.5	24
Class II	50,000-99,999	498	9.6	12.3	15
Class III	20,000-49,999	1,386	26.9	15.0	16
Class IV	10,000-19,999	1,560	30.2	8.1	7
Class V	5,000 - 9,999	1,057	20.5	2.8	8
Class VI	Less than 5,000	237	4.6	0.3	-22

Source: NCAER, 2002

These towns are a great significance to marketers, especially for durables and services. Rural consumers come here in search of information, demonstration and purchase.

Economic Environment

Income levels have increased drastically. The average income level of a household which stood at Rs.35000 in 1989-90 has increased by 48% in the year 1998-99. the proportion of household with Rs.70,000and above as income constituted 9% in 1989-90 has increased to 27% in 1998-99.the urban consumers(Source, NCAER, 2002) have to incur a higher cost of living and rural consumers have a higher disposable income is a encouraging phenomenon for the marketer.

The consumption pattern has changed. The per capita consumption which stood at Rs.112 per month in the year 1983 has jumped to Rs.486 in the year 2001.there is also a decline in money spent on food by rural consumer. The figure was 66% of per capita expenditure and has declined to 59%.

It can be seen that the rural economic environment has witnessed an increase in income and expenditure in the same way there has been a increase in their spending on non-food items.

Table 6: Economic Environment

Class	Annual income (Rs.)	Number of people (mn)
The very rich	Above 2,15,000	4
The consuming class	45,000-2,15,000	115
The climbers	22,000-45,000	331
The aspirants	16,000-22,000	170
The destitute	Less than 16,000	124

Source: NCAER, 2008

Around 450 million people in rural areas fall under the category of climbers, consuming class and the very rich. These are the segments which are potential and targets for selling durables in rural markets.

Table 7: Composition of Rural Per Capita Consumption Expenditure

Year on Consumption	Food	Non-Food
1983	66	34
1991	63	37
2001	59	41

Source: NCAER, 2002

Emergence of Rural India

Economic policies of the government of India in recent years have focused more on rural development. It shows that there are more decentralization of planning, enforcement of land reforms and also increased bank loan given to farmers and had made rural people with better prospects particularly in economic development. There are lot of improvements in health conditions, hygiene, drinking water facilities and also electric power supply to these areas.

The Consumer Base Class in India

It is believed that most of the MNCs are coming to India see the potential of the large size of the consumer class. The National Council of Applied Economic Research (NCAER), New Delhi, has reported about the durable and non-durable- and lately in identifying the economic status of the consumer classes. Apart from information on consumer goods, data on household incomes were also collected. Households were classified into 5 classes by annual income levels: low (less than Rs 25,000), lower middle (Rs 25,001-50,000), middle (Rs 50,000-77,000), upper middle (Rs 77,001-106,000), and high (over Rs 106,000) NCAER study analyzed the shifts in the distribution of households during and between the selected years 1989-90 and 1995-96.

Table 8: Comparison of Rural and Urban Income Classifications

1995-96 (In Percentage)			
Income Class	Urban	Rural	Total
Low	27.9	57.3	48.9
Lower middle	34.9	29.0	30.7
Middle	20.3	8.6	11.9
Upper middle	9.6	3.1	5.0
High	7.3	2.0	3.5
Total	100.0	100.0	100.0

Source: NCAER, 2002

Apart from this, NCAER had developed another set of segmentation which differentiates consumer groups on the basis of consumer concepts linked to their annual household income levels: very rich (over 215,000), consuming class (Rs 45,000-215,000), climbers (Rs 22,000 -45,000), aspirants (Rs 16,000-22,000) and destitute (less than Rs 16,000). On the basis of the spending power of various consumer groups styled interestingly, NCAER made the following estimates and projections:

Table 9: Rural Vs Urban Segmentation Based on Consumer Group

2006-07 (Mn Households)			
Consumer Group	Rural	Urban	Total
Very rich	1.6	4.5	6.2
Consuming class	47.3	43.6	90.9
Climbers	63.3	10.7	74.1
Aspirants	14.7	0.7	15.3
Destitutes	12.2	0.5	12.8
Total	139.1	60.0	199.3

Source: NCAER, 2002

NCAER has projected that the number of such families (earnings Rs 215,000 or more of annual income) would grow from one million to six million between 1994-95 and 2006-07.

Table 10: Economic Class in India – People and Households(Mn)

		People (mn)		Households (mn.)	
		1996-97	2000-01	1996-97	2000-01
G1.	The Affluent	26	35	5.5	7
G2.	The middle class	297	355	62.5	75
	a. upper middle	35	45	8.5	11
	b. core middle	85	106	20	25
	c. low middle	177	204	34	39
G3	The poor	342	376	58	64
G4	The market outcasts	285	279	46	45
	Total	950	1045	172	191

Source: Census, 2001

G1: The Affluent

Mainly those with high incomes from business (including domestic and international trade, agency and brokerage business), agriculture or property, some professionals such as well-paid lawyers and doctors, architects, chartered accountants, service providers, consultants; top-level executives of business and other organizations; politicians and bureaucrat.

G2: Total Middle Class

Constituting three segments of upper middle, core middle (sandwiched between the upper-end and lower-end segments) and low middle, with purchasing power and styles of living distinctively divergent among them.

G3: The Poor

Excluding those below the poverty line with very limited purchasing power.

G4: The Market Outcasts

Those below the poverty line who have practically no purchasing power beyond meeting the basic essential of life many of them live on doles in one form or another, often subjected to a high degree of economic exploitation by other classes.

One could consider bracketing the affluent and the upper middle class as there is a fair amount of commonality in terms of consumption pattern between the two.

The profiles of the poverty component upto 2006-07 were earlier projected to take the following trends:

Table 11: Rural Vs Urban Poverty Segment Projection

Segment	1973-74	1993-94	1996-97	2001-02	2006-07
Rural	56.4	37.3	30.5	18.6	9.6
Urban	49.0	32.4	25.6	16.6	9.3
Total	54.9	36.0	29.2	18.0	9.5

Source: Planning Commission report, 2005

According to the planning commission, the poverty ratio had come down from 38.9% in 1987-88 to 36.0% in 1993-94 and to 26.1% in 1999-2000. Corresponding levels for the rural areas was 39.1%, 37.3% and 27.1% and for the urban areas 38.2%, 32.4% and 23.6%. These vary widely from state to state.

Indian Consumer Durable Industry

In the last one decade there seems to a huge growth for durables in Indian retail market. According to A C Nielson report, 2010 there is a growth rate of over 30 percent in rural consumer market alone. There is an estimated growth rate of more than 55 percent in India by 2015. The total size of the consumer durables market stands at US\$ 6.72 billion and will reach US\$ 11.2 billion by 2015. Durables like LED Television, Mobile phones and refrigerators seems to have major growth in rural markets. This growth is due to the increase in disposable income levels in rural families and also a decent monsoon in most of the areas.

There is a discernible shift in the consumer's preference in favor of higher end, technologically superior branded products, the demand being spurred by increasing consumer awareness and preference for new models. The reason behind is the manufacturers have reduced the price and different models have been launched in rural markets thereby narrowing down the price between the branded and grey market. There are lot of Korean and Chinese brands have invaded into the rural market place there by forcing the competitors to look into a different behavioral economics in rural markets. The growth is also because of raising double income families in rural areas and also easy finance options given to the non salaried rural farmers. Today there is a tremendous increase in the rural consumers wants and they are started demanding more durables as like urban counterpart.

Potential of Rural Markets in Consumer Durables

Table 12: The Demand of the Past and Future of the Consumer Durable Products

Demand : Past & Future					
Year	Television (Mn No.)	VCD/DVD (Mn No.)	Refrigerator (Mn No.)	Washing machine (Th Nos)	Two Wheeler (Mn no.)
1990-91	1.20	-	1.24	220	1.82
1991-92	0.90	-	1.13	263	1.60
1996-97	2.60	0.38	1.93	605	2.98
1997-98	3.30	.48	2.18	695	3.07
1998-99	4.40	.60	2.43	820	3.37
1999-00	5.80	1.00	2.62	980	3.78
2000-01	5.90	1.50	2.70	1200	3.55
2001-02	6.20	2.25	2.95	1480	4.30
2002-03	7.60	3.40	3.00	1525	4.99
2003-04	8.90	5.00	3.15	1485	5.63
2004-05	10.00	6.75	3.30	1590	6.57
2005-06	1.35	8.85	3.50	1775	7.57
2006-07	12.77	12.10	3.75	1925	8.89
2007-08	16.50	16.25	3.86	2250	10.33
2008-09	17.50	21.28	3.88	2330	11.87
2009-10	18.90	27.03	4.15	2500	13.52
2010-11	20.30	33.25	4.44	2775	15.15
2011-12	21.70	39.00	4.76	3000	16.63
2012-13	23.30	45.00	5.11	3260	18.17
2013-14	25.45	54.15	5.18	3580	19.86
2014-15	27.95	63.80	5.89	3800	21.70
2019-20	46.00	74.20	8.25	5750	33.85

Source: Market Forecasts and Indicators, 2009

Table 13: Showing the Market Growth Rates of the Consumer Durable Products

Market Growth Rates					
Year	Television (%)	VCD/DVD (%)	Refrigerator (%)	Washing machine (%)	Two Wheeler (%)
1996-97 - 2001-02	12.0	47.9	8.9	19.6	7.6
2001-02 - 2006-07	15.6	36.7	4.9	5.4	15.6
2006-07 - 2011-12	11.2	22.8	5.0	9.3	13.3
2011-12 - 2019-20	9.8	16.0	7.0	8.5	9.29
Sensitivity Coefficient	8.1	4.1	4.2	9.5	5.7

Source: Market Forecasts and Indicators, 2009

As per the NCAER Indian Market demographics report 2002, rural India accounted for over 60 percent share of durables. The estimated annual size of the rural market is Rs. 130 billion (Francis Kanoi, 2002). While urban households owned 8.19 goods per household, rural owned only 3.84 goods per household in 1999, this indicates the potential for rural markets. Overall durables consuming class: 24 million urban households, 17 million rural households, total 44 million households.

CONCLUSIONS

Rural India is a vast and a complex society – its huge population is highly diverse in terms of ethnicity, language, customs and their way of life. Even India's urban cities and different states there are notable differences in consumer buying behavior. The demographic and economic statistics that underlay the growth of India's major sector are truly impressive.

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